DEPARTMENT OF STATE INSTRUCTION

CONFIDENTIAL
*(Security Classification)*

NO.: A-57 April 27, 1955

SUBJECT: Implementation of U. S. Economic Aid to Libya

TO: The American Embassy, Tripoli, Libya


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Reference is made to USFOTO A-342 of April 22, 1955; Embassy despatch 226 of February 23, 1955 and TOUSFO A-523 of February 23, 1955.

This instruction should be considered as supplemental to A-342 under reference.

The Department agrees with the Embassy's position (expressed in the penultimate paragraph of despatch 226 under reference) that $4.4 million is a sizeable proportion of the funds now available and will not all be needed for the initial operation of the banks. This opinion is borne out by the Finance Minister and Mr. Pitt-Hardacre's reference to only 700,000 pounds for the establishment of both banks (as reported on page 4 of TOUSFO A-523 under reference).

The Department has no objection to the allocation of $1.4 million to the National Bank. This sum appears reasonable in view of the administrative expenses involved in establishing the bank, and the need for an appropriate capitalization to reflect the prestige of such a new national institution.

Although the Department fully approves the plan for the establishment of an Agricultural Credit Bank, it does not believe that the proposed institution will require an initial cash outlay of $3 million during Libyan Fiscal Year 1956, particularly in view of the many problems (mentioned in the Kerr Report on Banking and Agricultural Credit) which must be overcome before a bank of the desired standard can be organized and placed in effective operation.

The Department believes that $4.4 seems to be a disproportionate share of available U.S. funds to be allocated to the banks before the various technical committees of LARC have had an opportunity to study the additional proposed projects and their financial requirements. It probably follows that if the Libyans use up such a large share of U.S.


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share of U.S. funds on the banks, they may increase their demands for additional U.S. economic assistance as early as U.S. Fiscal Year 1956 to cover the costs of other equally high priority projects.

Since the Libyan law requires an initial capitalization of $3 million for the Agricultural Credit Bank, the Department believes that the Embassy and USOM/L should recommend to the Libyans that they: either (1) contribute at least one-half of the sum out of other than LARC funds; or (2) deposit that amount in the form of a Libyan Treasury note with a Libyan Government guarantee (as suggested in the last paragraph of A-342 under reference).

FOA/W concurs with the foregoing.

(The Department and FOA/W have been under the impression that the total capitalization of the banks was to be $4.2 million, not $4.4 million as reported in despatch 226. Clarification would be appreciated).

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